

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 ACDA-19 SPC-03 AID-20 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 L-03

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FM AMEMBASSY BUDAPEST

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USDOC WASHDC

CONFIDENTIAL SECTION 1 OF 2 BUDAPEST 3164

E.O. 11652: GDS

TAGS: ETRD, OVIP, PFOR, HU

SUBJECT: AMBASSADOR'S CALL ON VALYI

REFS: A. BUDAPEST 3030; B. USDOC 14116

DEPARTMENT PASS TREASURY

1. BEGIN SUMMARY. ON AFTERNOON SEPTEMBER 13 I MADE 45-MINUTE CALL ON DEPUTY PRIME MINISTER VALYI. DURING EXCEPTIONALLY CORDIAL SESSION VISIT OF SECRETARY DENT AND POSSIBILITIES FOR FUTURE OF HUNGARIAN-AMERICAN TRADE WERE PRIMARY ITEMS OF DISCUSSION ALTHOUGH VALYI ALSO BRIEFLY MENTIONED HUNGARY'S DIFFICULT ROLE IN ICCS AND POSSIBILITIES FOR IMF MEMBERSHIP. VALYI IS LOOKING FORWARD TO SECRETARY'S VISIT AS MOST IMPORTANT NEXT STEP IN THE IMPROVEMENT OF OUR RELATIONS. END SUMMARY.

2. I OPENED MEETING BY THANKING VALYI FOR ALTERING HIS SCHEDULE IN ORDER TO BE ABLE TO SPEND MONDAY MORNING AND NOON WITH SECRETARY DENT. VALYI REPLIED THAT HE WAS MOST DELIGHTED THAT DENT WAS COMING AND ONLY REGRETTED THAT HE

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COULD NOT BE IN BUDAPEST FOR FULL DURATION. HE HAD DONE HIS

BEST TO DELAY CEMA EXECUTIVE COMMITTEE MEETING IN MOSCOW, WHICH WAS PLANNED SIX MONTHS AGO, SO HE COULD BE WITH SECRETARY, AND HAD PARTIALLY SUCCEEDED. HE ADDED SMILING, THAT I ONLY HAVE SUFFICIENT INFLUENCE IN MOSCOW TO OBTAIN LIMITED DELAY. HE WOULD HAVE TO LEAVE MONDAY AFTERNOON.

3. VALYI TOLD ME HE WOULD BE DELIGHTED TO HOST SUNDAY EVENING DINNER FOR SECRETARY AND MRS. DENT. HE WOULD THEN HOLD MONDAY MORNING DISCUSSION WITH SECRETARY AND SAID HE WOULD LIKE TO ATTEND OUR MONDAY LUNCHEON AND REQUESTED IT BE MOVED UP TO 12:30 IN ORDER TO PERMIT DEPARTURE FOR MOSCOW AT 1500. I OF COURSE AGREED (WE WILL BE RESCHEDULING DAY'S VISITS TO MEET THIS REQUIREMENT).

4. VALYI THOUGHT IT WOULD BE MOST USEFUL FOR SECRETARY TO MEET WITH CHAIRMAN NATIONAL PLANNING COMMITTEE LAZAR AND AGRICULTURE MINISTER DIMENY IN ADDITION TO HIMSELF AND BIRO, ALTHOUGH HE WAS NOT CERTAIN DIMENY WOULD BE IN BUDAPEST. HE HAD RECEIVED COPY OF SECRETARY DENT'S SUGGESTED AGENDA FORWARDED WITH REFTEL B, WHICH PRESENTED SEPT. 12 TO MFA AND MFT AND SAID THAT HE WAS LOOKING FORWARD TO DISCUSSING ALL QUESTIONS RAISED BY SECRETARY. HE COULD THINK OF NO DISCUSSION ITEMS TO ADD TO SECRETARY'S PROPOSALS. I SAID I WAS NO LONGER SURE SECRETARY DENT WOULD RAISE CULTURAL AGREEMENT. I ALSO NOTED THAT SECRETARY WOULD BRING LATEST WORD ON STATUS MFN AND TRADE BILL, WHICH WAS RECEIVING STRONG ADMINISTRATION SUPPORT, BUT OF COURSE WOULD NOT BE IN POSITION TO NEGOTIATE. HE SAID HE ALREADY HAD UNDERSTOOD THIS ENTIRELY.

5. TURNING TO HUNGARIAN-AMERICAN ECONOMIC RELATIONS I BROUGHT UP VALYI'S RECENT ARTICLE ON SUBJECT APPEARING IN LATEST ISSUE OF NEW HUNGARIAN QUARTERLY AND KULGAZDASAG (SEE REFTEL A). REFERRING TO THE POINT I MADE WITH SZALAI THE DAY BEFORE, I SAID THAT THE PROJECTIONS OF MANY AMERICAN EXPERTS WITH WHOM I HAD DISCUSSED THE SUBJECT FORESAW A SOMEWHAT SMALLER JUMP IN OUR BILATERAL TRADE THAN THE FOUR-FOLD EXPANSION TO \$200 MILLION LEVEL PREDICTED BY VALYI. VALYI REPLIED THAT HE HAD SAID HE "HOPED" IT WOULD GO TO THAT LEVEL AND WHILE OUR EXPERTS MIGHT BE RIGHT HE HAD BEEN

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FREQUENTLY ACCUSED BY HIS OWN COLLEAGUES OF BEING TOO PESSIMISTIC IN HIS ESTIMATE. IN RESPONSE TO MY QUESTION WHETHER HE FORESAW PERCENTAGE OF THEIR TRADE WITH US RISING TO PRE-WAR LEVEL (3-5 PERCENT) HE SAID THAT IF CURRENT FAVORABLE TREND CONTINUED AND ASSUMING EARLY GRANTING OF MFN OUR BILATERAL TRADE COULD REACH THAT POINT BY 1980. HE ADDED THAT THIS FIGURE MIGHT EVEN BE APPRECIABLY HIGHER AS HUNGARY, WITH EYE ON FUTURE IN EEC, WAS ANXIOUS TO EXPAND

ITS TRADE TIES WITH OTHER DEVELOPED CAPITALIST COUNTRIES AND, IN PARTICULAR, JAPAN, CANADA AND THE US. OF THESE LATTER THREE, VALYI PERSONALLY FELT THAT THE US OFFERED THE MOST ATTRACTIVE LONG RANGE POSSIBILITIES.

6. VALYI SAID, HOWEVER, THAT US REMAINS TERRA INCOGNITA FOR HUNGARIAN EXPORTERS. WE MUST NOT PURSUE AN ACROSS-THE-BOARD EXPORT PROGRAM TO THE US, HE CONTINUED, BUT RATHER CONCENTRATE ON CREATING FEW LINES OF HIGH QUALITY PRODUCT WHICH WILL PERMIT US TO COMPETE EFFECTIVELY. HE ALSO THOUGHT THEY HAD TO THINK IN TERMS OF LARGER PRODUCTION OF SUCH ITEMS FOR OUR TRADE THAN THEY WERE USED TO. VALYI SAID THAT HE THOUGHT FOOD PROCESSING INDUSTRY, EMULATING SUCCESS OF HUNGARIAN HAM EXPORTS, PHARMACEUTICALS AND LIGHT INDUSTRIAL PRODUCTS SUCH AS TUNGSTRAM'S LIGHTBULBS WERE BEST CANDIDATES FOR EXPORT EXPANSION. COOPERATION OF US BUSINESS IN HELPING TO MODERNIZE MORE PROMISING SECTORS OF HUNGARIAN INDUSTRY, AS IN CORNING TURNKEY PROJECT CARRIED OUT WITH TUNGSTRAM, WOULD BE MOST WELCOME AND WOULD OFFER GOOD OPPORTUNITIES FOR US SALES HERE. VALYI HAD NO EXPECTATION THAT HUNGARIANS WOULD HAVE ANYTHING RESEMBLING AN EVEN TRADE BALANCE WITH US. HOWEVER, HUNGARIANS MUST MAKE CONSIDERABLE EFFORTS TO LEARN ABOUT US MARKET TO PREVENT BILATERAL TRADE FROM BECOMING COMPLETELY ONE-SIDED.

7. I NOTED THERE MAY HAVE BEEN FAILURE OF COMMUNICATION IN CLAIMS AGREEMENT ABOUT FACT THAT IT HAD NOT GIVEN THEM ACCESS TO US BOND MARKET BUT THAT IF TRADE BILL IS ENACTED AS WE HAD REQUESTED, THIS ISSUE WOULD BE SOLVED. VALYI SAID IT WAS A SMALL PROBLEM. I NOTED IT COULD ALSO BE SOLVED IF HUNGARY WERE IMF MEMBER. HE REPLIED THAT THERE WAS CONTINUED INTEREST IN IMF MEMBERSHIP AND THAT "SOMEDAY" HUNGARY WOULD

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UNDoubtedly BECOME A MEMBER BUT IMPLIED THAT THE POSSIBILITIES FOR HUNGARY JOINING THE FUND IN THE NEAR FUTURE WERE SMALL.

8. TURNING TO MORE GENERAL THEME, VALYI BEMOANED TENDENCY OF MANY AMERICANS TO LUMP ALL WARSAW PACT COUNTRIES INTO SINGLE CATEGORY OR AS HE PUT IT "PAINT US ALL ONE UNIFORM SHADE OF RED". WE ARE ALL ACTUALLY QUITE DIFFERENT, HE CONTINUED, AND WHEN YOU GET TO KNOW US BETTER YOU WILL

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C O N F I D E N T I A L FINAL SECTION OF 2 BUDAPEST 3164

DISCOVER THAT WE ARE ALL "DIFFERENT SHADES OF RED".

9. VALYI THEN ALLUDED TO ICCS ISSUE SAYING THAT HE HOPED MULTILATERAL ISSUES WOULD NOT GET INVOLVED WITH BILATERAL RELATIONS, ADDING "YOU KNOW WHAT I MEAN" AND THEN REFERRING DIRECTLY TO VIETNAM. I SAID THAT WE DID NOT FEEL THAT HUNGARY'S PERFORMANCE ON THE COMMISSION HAD BEEN IMPARTIAL AND THAT WHILE OUR POLICY WAS VERY MUCH DIRECTED TO IMPROVING RELATIONS WHAT THEY DID THERE OBVIOUSLY AFFECTED OUR RELATIONS TOO. VALYI SAID "OF COURSE" AND ADDED THAT HE HOPED THE WHOLE EPISODE WOULD BE CONCLUDED QUIETLY IN THE RELATIVELY NEAR FUTURE WITH A MINIMUM OF DAMAGE DONE.

10. IN CLOSING I THANKED VALYI FOR HIS TIME AND HIS HELP WITH SECRETARY'S FORTHCOMING VISIT. HE SAID HE WOULD BE AVAILABLE TO US WHENEVER WE NEEDED IT AND WOULD LIKE TO BE IN TOUCH WITH EMBASSY FROM TIME TO TIME. IN RESPONSE TO A REFERENCE BY ME TO SECRETARY SCHULTZ SPEECH IN TOKYO, HE EXPRESSED GREAT INTEREST AND WE ARE SENDING HIM A COPY.

11. THE MEETING WAS MARKED BY VERY CORDIAL ATMOSPHERE. VALYI
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IS AS PLEASANT AND URBANE HERE AS HE OBVIOUSLY HAS BEEN

IN WASHINGTON, HIS REMARKS WERE CONSISTENT WITH HIS
ROLE AS HUNGARY'S MOST OUTSPOKEN ADVOCATE OF CLOSER US-
HUNGARIAN COMMERCIAL TIES. VALYI WILL UNQUESTIONABLY BE
A DELIGHTFUL AND CHARMING HOST TO THE DENT PARTY.
HE SPOKE ENTIRELY IN ENGLISH AND WAS ALONE DURING MEETING
IN WHICH I HAD MY ECONOMIC OFFICER PRESENT.
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